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FISCAL IMPACT STATEMENT

LS 6995

BILL NUMBER: HB 1544

NOTE PREPARED: May 4, 2013

BILL AMENDED: Apr 26, 2013

SUBJECT: Motorsports.

FIRST AUTHOR: Rep. Turner

FIRST SPONSOR: Sen. Hershman

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Motorsports Investment District:* This bill establishes the Indiana Motorsports Commission (IMC). It authorizes the IMC to adopt a resolution establishing a Motorsports Investment District (MID). The bill specifies that the State Budget Committee shall review and make a recommendation to the State Budget Agency regarding the resolution. It requires the State Budget Agency approval for the establishment of the MID. It specifies that a resolution establishing a MID must provide for the allocation to the Motorsports Investment District Fund (MIDF) of amounts appropriated to the IMC.

The bill specifies that the Indiana Finance Authority (IFA) may issue bonds to pay the cost of improving, constructing, reconstructing, renovating, acquiring, or equipping improvements within qualified motorsports facility. (The qualified motorsports facility is the Indianapolis Motor Speedway.) The bill provides that the bonds must mature within 20 years. It provides that the IFA may not issue such bonds unless the owner or owners of the qualified motorsports facility, the IFA, and the IMC have entered into a written agreement concerning the terms of the financing of the improvements, including the obligation of the owner or owners of the qualified motorsports facility to make payments in an amount equal to at least \$2 M each state fiscal year to the IMC for deposit in the MIDF during the term of the agreement, and the ultimate parent company of the qualified motorsports facility makes certain guarantees.

The bill authorizes the IMC to lease all or any part of the structures and capital improvements from the IFA and to pledge amounts appropriated to the IMC for payments under the lease. It provides that the amount of any rent under such a lease may include the amount necessary to pay the bonds issued by the IFA. The bill specifies that if the IMC enters into such a lease with the IFA, it may sublease the structures and capital improvements to the owner or owners of the qualified motorsports facility. It provides that if the IMC purchases the leased property or it is otherwise conveyed to the IMC, they may convey the property to the

owner or owners of the qualified motorsports facility if:

- (1) The aggregate amount of credits provided to the owner or owners of the qualified motorsports facility equals or exceeds the aggregate amount of the funds appropriated to the IMC and used by the IMC to pay rent to the IFA under the lease and any expenses incurred by the IFA or the IMC; and
- (2) All bonds issued by the IFA are no longer outstanding.

The bill requires the IMC to secure the obligations of the owner or owners of the qualified motorsports facility to the IMC under a lease or sublease with liens or security interests. It specifies that if a controlling ownership interest in a qualified motorsports facility is sold after the IFA issues bonds, the IMC shall determine whether the purchaser shall be allowed to assume the motorsports facility's obligations. It specifies that if the commission determines that there is good cause not to allow such an assumption by the purchaser, the owner or owners of the qualified motorsports facility shall pay to the IMC an amount sufficient to pay the cost of defeasing all outstanding bonds issued by the IFA for purposes of the qualified motorsports facility and paying all expenses of the IMC and the IFA incurred in connection with such defeasance.

It provides that when the aggregate amount of credits provided to the owner or owners of the qualified motorsports facility equals or exceeds the aggregate amount of the funds appropriated to the IMC and used to pay rent by the IMC to the IFA under the lease entered into between the IFA and the IMC, and if all bonds issued by the IFA are no longer outstanding, the IMC shall take the legal steps required to terminate each of its security interests in and mortgage liens on the improvements.

The bill provides that the credits provided to the owner or owners of the qualified motorsports facility are equal to the incremental state sales and income taxes from the MID and the amount of the admissions fees on admission to the qualified motorsports facility.

It provides that the goals for participation for the improvements financed under these provisions are 15% for minority business enterprises, 8% for women's business enterprises, and 3% for veteran or disabled business enterprises, consistent with the goals of delivering projects on time and within budget.

The bill requires the Office of Management and Budget (OMB) to conduct a review in 2023 of certain aspects of the MID and to report to the Budget Committee and the Legislative Council.

Income Tax - Allocation Method: The bill provides that the amount of a race team member's race related income that is Indiana income is based on the fraction of the individual's Indiana duty days for the taxable year divided by the individual's total duty days for the taxable year. It specifies the manner in which certain receipts derived from motorsports racing are apportioned to Indiana. It also provides for the reporting of prize money, purses, or other amounts that are distributed at a professional motorsports racing event at a qualified motorsports facility.

Motorsports Improvement Program and Fund: The bill establishes the Motorsports Improvement Program and Fund, to be administered by the Indiana Economic Development Corporation (IEDC). Provides that a person owning a motorsports enterprise may apply to the IEDC for a low-interest loan from the fund to be used for improving the motorsports enterprise. It provides that the program expires June 30, 2017.

Admissions Fee: The bill provides that an admissions fee is imposed on each person charged for admission to a qualified motorsports facility on a race day. It provides that the admissions fees shall be deposited in the state General Fund. It also specifies the conditions under which the admissions fee expires.

Effective Date: Upon passage; July 1, 2013; January 1, 2014.

Explanation of State Expenditures: *Motorsports Investment District: Summary* - The bill establishes the Indiana Motorsports Commission (IMC) as a separate body corporate and politic to finance and lease real and personal property improvements for the owner of the Indianapolis Motor Speedway (IMS). The bill stipulates the IMC will determine the geographic area of the Motorsports Investment District (MID) within the resolution establishing the MID. The MID consists of the:

- Geographic area included within the IMS.
- Adjacent property related to the operations of the IMS and owned by the same owner, owners, subsidiary, or affiliate of the IMS.
- Property on which activities related to the IMS occur.
- Other public property specified by the IMC as determined in the resolution adopted by the commission.

The IMC must submit the resolution to the State Budget Agency for review by the State Budget Committee and approval by the State Budget Agency. The MID may not exist longer than 30 years or beyond the date the IMS fulfills their financial obligations to the IMC.

The bill creates the Motorsports Investment District Fund (MIDF). The IMC will request an appropriation of up to \$5 M per fiscal year, until the earlier of the date which all bonds issued by the IFA are no longer outstanding or 22 years after the first appropriation. The bill also requires the IMS to deposit \$2 M per fiscal year into the MIDF. The money in the MIDF will be used by the IMC to pay the rent due under leases of structures or other capital improvements located in the MID and to pay all expenses incurred by the IMC or IFA in connection with the exercise of their duties relating to the MID.

The IMC is required to secure the obligations of the owners of the IMS with liens or security interests, including security interests in personal property and mortgage liens on real property until the terms of the agreement are fulfilled. Then, the IMC will take the necessary steps to eliminate their interests on those improvements.

Motorsports Improvement Program and Fund: The Motorsports Improvement Program and Fund is a revolving fund used to provide low-interest loans for the development of the motorsports industry in Indiana. The bill defines motorsports enterprises as racing facilities, businesses involved in the production of items used in motorsports, or a person who is either an owner or driver. It does not include the IMS, a facility constructed to host home games of a professional football or basketball team, temporary racing facilities, the state fairgrounds, or county fairgrounds. The fund consists of appropriations and loan repayments. The program begins in FY 2014.

The IEDC will administer the Motorsports Improvement Program and Fund. The IEDC will receive applications, determine interest rates, and approve loans to motorsports enterprises. The IEDC's current level of staff and resources should be sufficient to implement the program.

Motorsports Investment District: Additional Information -

Department of State Revenue (DOR): The DOR will incur additional expenses to implement the provisions in the bill. The DOR will administer the admissions fee on race day admissions at IMS. The bill authorizes the DOR to develop guidelines and instructions concerning the appropriate amount of income tax to be withheld from purse money and prizes won for racing at IMS. The DOR is required to determine the amount of incremental sales and income tax from within the district to be credited towards IMS's obligations. The DOR's current level of staff and resources should be sufficient to implement the provisions within the bill. (The DOR has expertise administering similar tax capture areas like Professional Sports Development Areas.)

Indiana Finance Authority (IFA): The IFA is granted the authority to issue bonds for the purpose of covering the cost of improving, constructing, reconstructing, renovating, acquiring, or equipping structures and capital improvements within the IMS. The bonds issued must mature within 20 years and be sold at public or private sale. The bonds may only be issued if:

- The IMS deposits \$2 M per fiscal year in the MIDF.
- The IFA enters into a lease with the IMC for the structures or other capital improvements located in the MID, and the IMC enters into a sublease with the IMS for the same property.
- The IMS guarantees full and timely payment of the financing, and the IMS agrees to pay the difference if, after 30 years from the date the MID is established, the aggregate amount of credit allocated is less than the total amount of funds appropriated to the MIDF.

In addition, the IFA is required to provide staff support for the IMC. The IFA's current staff and resources should be sufficient to implement the provisions of the bill. (All assistance provided by the IFA to the IMC will be paid from the MIDF.)

Indiana Motorsports Commission (IMC): The bill creates the IMC which establishes, by resolution, the MID and oversees the investments made within the MID. The IMC is governed by a board comprised of five members, including the State Budget Director and four others appointed by the Governor. The board members will not receive salary per diem, but board members may be reimbursed for travel expenses.

The IMC may lease the structures or other capital improvements located in the MID from the IFA. The IMC may pledge the money in the MIDF, income from leased structures, and other legally available money to pay rent under the lease agreements. The rent may include the amount necessary to pay the debt service on any bonds issued by the IFA. The IMC may sublease the structures or other capital improvements located in the MID to the IMS. In addition, the IMC will convey its ownership or leasehold interest in such properties to the IMS when all bonds issued by the IFA are no longer outstanding and the aggregate amount of credits allocated to the IMS equals or exceeds the total appropriations to the MIDF.

State Budget Agency (SBA) and Office of Management and Budget (OMB): The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: Income Tax - Allocation Method: The bill defines a method for professional motorsports racing teams to allocate their income to Indiana. A qualifying individual's income is allocated to Indiana by multiplying their total income during the taxable year by the ratio of Indiana duty days over total duty days for the same taxable year. This provision should have a minimal net fiscal impact because individuals who earn income from an Indiana source or earn income derived from activities performed in Indiana incur an Indiana income tax liability under current statute.

Motorsports Investment District: Summary - The bill stipulates that the sum of the following amounts comprise the credits allocated towards the IMS's obligations under the provisions of the MID agreement: (1) incremental sales tax revenue remitted by taxpayers operating within the MID; (2) incremental individual income tax revenue from income taxes paid with respect to income earned or attributable to the taxpayer's activities within the MID; and (3) an admissions fee imposed on race day admissions at IMS. It is estimated that at least \$575,000 will be allocated in FY 2014 and at least \$850,000 in FY 2015. The amount of revenue collected through these methods will increase as activity increases within the MID.

Motorsports Investment District: Additional Information -

Incremental Tax Capture: The bill credits the captured incremental sales tax and individual income tax from the MID towards the obligations of the IMS. The base sales and individual income tax amounts as well as the incremental amounts will be determined by the DOR. The incremental revenue that may be credited to the IMS is indeterminable.

Admissions Fee: The bill imposes an admissions fee on each person charged for admission to the IMS on a race day. The bill defines a race day as a day where a race is conducted in which a competitor may earn points towards a series championship. The fee equals the applicable percentage specified below multiplied by the price of admission.

- 6% on admissions at least \$150.
- 3% on admissions at least \$100 but less than \$150.
- 2% on admissions less than \$100.

The admission fee revenue is to be deposited in the state General Fund and credited towards the lease agreement. The admission fee goes into effect after January 2014. The fee is estimated to increase state General Fund revenue by about \$575,000 in FY 2014 and \$850,000 in FY 2015. The amount of revenue collected by the admission fee depends on admission prices, tickets purchased, and attendance at race day events.

The admissions fee will expire once all bonds issued by the IFA for improvements in the MID are no longer outstanding and the aggregate amount of credits allocated to the IMS equals or exceeds the total appropriations to the MIDF.

Explanation of Local Expenditures: At the DOR's request, the Town of Speedway will provide them with information concerning permits issued to vendors operating within the MID. The Town of Speedway should have sufficient resources to comply with this request.

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation; Indiana Finance Authority; Office of Management & Budget; State Budget Agency; State Budget Committee.

Local Agencies Affected: Town of Speedway.

Information Sources: LSA Unemployment Payroll Reporting (ES202) Database; Indianapolis Motor Speedway, Tickets, <http://www.indianapolismotorspeedway.com/indy500/>.

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